

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Fennville Area Fire Board	County Allegan
Fiscal Year End 06-30-2006	Opinion Date 10-19-06	Date Audit Report Submitted to State 03-14-07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

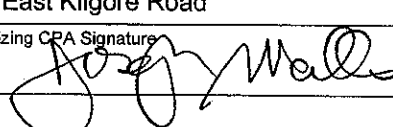
☒ YES  
☐ NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☒ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☒ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☒ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>	No further documentation required	
Certified Public Accountant (Firm Name) Siegfried Crandall P.C.		Telephone Number (269) 381-4970	
Street Address 246 East Kilgore Road		City Kalamazoo	State MI
Zip 49002		License Number 1101013696	
Authorizing CPA Signature 		Printed Name Joseph M. Walls	

*Fennville Area Fire Board*  
*Allegan County, Michigan*  
**FINANCIAL STATEMENTS AND**  
**INDEPENDENT AUDITORS' REPORT**  
*Year ended June 30, 2006*

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## INDEPENDENT AUDITORS' REPORT

### Members of the Board Fennville Area Fire Board

We have audited the accompanying financial statements of the governmental activities and the major fund of the Fennville Area Fire Board as of and for the year ended June 30, 2006, which collectively comprise the Fire Board's basic financial statements as listed in the contents. These financial statements are the responsibility of the Fire Board's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the major fund of the Fennville Area Fire Board as of June 30, 2006, and the respective changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

The budgetary comparison information, on page 10, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Fennville Area Fire Board has not presented a management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

*Siegfried Crandall P.C.*

October 19, 2006

## **BASIC FINANCIAL STATEMENTS**

**Fennville Area Fire Board****STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET**

June 30, 2006

	<u>Operating Fund</u>	<u>Adjustments</u>	<u>Statement of activities</u>
<b>ASSETS</b>			
Cash	\$ 33,757	\$ -	\$ 33,757
Accounts receivable	1,066	-	1,066
Capital assets, net	-	396,775	396,775
Total assets	<u>\$ 34,823</u>	<u>396,775</u>	<u>431,598</u>
<b>LIABILITIES</b>			
Payables	\$ 20,936	-	20,936
Note payable:			
Due within one year	-	19,245	19,245
Due after one year	-	115,759	115,759
Total liabilities	20,936	<u>135,004</u>	<u>155,940</u>
<b>FUND BALANCE</b>			
Unreserved, undesignated	<u>13,887</u>	<u>(13,887)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 34,823</u>		
<b>NET ASSETS</b>			
Investment in capital assets, net of related debt		261,771	261,771
Unrestricted		<u>13,887</u>	<u>13,887</u>
Total net assets		<u>\$ 275,658</u>	<u>\$ 275,658</u>

**Total fund balance** \$ 13,887

Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in *governmental activities* are not financial resources and, therefore, are not reported in the funds.

396,775

Long-term liabilities, including contract and bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.

(135,004)

**Total net assets** \$ 275,658

See notes to financial statements

**Fennville Area Fire Board**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCE/STATEMENT OF ACTIVITIES**

*Year ended June 30, 2006*

	<u>Operating Fund</u>	<u>Adjustments</u>	<u>Statement of activities</u>
<b>EXPENDITURES/EXPENSES</b>			
Public safety	\$ 94,900	\$ 62,453	\$ 157,353
Capital outlay	13,338	(13,338)	-
Debt service:			
Principal	19,245	(19,245)	-
Interest	4,961	-	4,961
	<u>132,444</u>	<u>29,870</u>	<u>162,314</u>
<b>PROGRAM REVENUES</b>			
Intergovernmental	129,939	-	129,939
Other	1,876	-	1,876
	<u>131,815</u>	<u>-</u>	<u>131,815</u>
<b>NET PROGRAM REVENUES</b>	<u>(629)</u>	<u>(29,870)</u>	<u>(30,499)</u>
<b>GENERAL REVENUES</b>			
Interest	3	-	3
<b>NET CHANGE IN FUND BALANCE/NET ASSETS</b>	(626)	(29,870)	(30,496)
<b>FUND BALANCE/NET ASSETS - BEGINNING</b>	<u>14,513</u>	<u>291,641</u>	<u>306,154</u>
<b>FUND BALANCE/NET ASSETS - ENDING</b>	<u>\$ 13,887</u>	<u>\$ 261,771</u>	<u>\$ 275,658</u>
<b>Net change in fund balance</b>			\$ (626)
Amounts reported in the statement of activities are different because:			
Capital assets:			
Assets acquired			12,200
Provision for depreciation			(61,315)
Long-term debt - principal payments			<u>19,245</u>
<b>Change in net assets</b>			<u>\$ (30,496)</u>

*See notes to financial statements*

**Fennville Area Fire Board**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The accounting policies of the Fennville Area Fire Board (the Fire Board) conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governments. The following is a summary of the more significant policies:

*a) Reporting entity:*

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, these financial statements present the Fire Board. The criteria established by the GASB for determining the reporting entity include oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. The Fire Board has determined that no other outside agency meets the above criteria and, therefore, no other agency has been included as a blended or discretely-presented component unit in the Fire Board's financial statements.

The Fire Board is a joint venture of the City of Fennville, Manlius Township, and Clyde Township, formed June 27, 1985, to provide fire protection within the participating municipalities. Costs of operations and capital expenditures are supported by contributions from the participating municipalities.

*b) Basis of accounting:*

The statement of net assets and the statement of activities are reported using the economic resources, measurement focus, and the accrual basis of accounting. Revenue is recorded when earned and expenses when a liability is incurred, regardless of timing of related cash flows. Grants and similar items are recognized as revenue as soon as all the eligibility requirements imposed by provider have been met.

The Operating Fund financial statements are reported using the current financial resources, measurement focus, and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority generally considers revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

*c) Assets and liabilities:*

*i) Bank deposits* - Cash is considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Investments are stated at fair value.

*ii) Capital assets* - Capital assets, which include land, buildings, equipment, and vehicles, are defined by the Fire Board as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.



**Fennville Area Fire Board**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) *Assets and liabilities* (continued):

ii) *Capital assets* (continued) - Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings and improvements	20 - 40 years
Equipment	10 - 20 years
Vehicles	5 - 15 years

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

*Budgetary information*

An annual budget is adopted on a basis consistent with generally accepted accounting principles for the General Fund. The budget document presents information by function and line-item. The legal level of budgetary control adopted by the governing body is the functional level. All annual appropriations lapse at the end of the fiscal year.

*Excess of expenditures over appropriations*

The following schedule sets forth a significant budget variance:

<u>Fund</u>	<u>Function</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General	Public safety	\$ 93,740	\$ 94,900	\$ (1,160)
	Capital outlay	10,700	13,338	(2,638)

NOTE 3 - CASH:

*Deposits with financial institutions:*

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) and the Fire Board's investment policy authorize the Fire Board to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations that have an office in Michigan. The Fire Board's deposits are in accordance with statutory authority.

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the Fire Board will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by depository insurance. At June 30, 2006, the Fire Board's bank balances of \$33,963 were fully insured, and were, therefore, not exposed to custodial risk.

**Fennville Area Fire Board**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 4 - CAPITAL ASSETS:**

Capital asset activity of the Fire Board for the year was as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Capital assets being depreciated:				
Buildings	\$ 20,000	\$ -	\$ -	\$ 20,000
Equipment	201,716	12,200	-	213,916
Vehicles	407,445	-	-	407,445
Subtotal	<u>629,161</u>	<u>12,200</u>	<u>-</u>	<u>641,361</u>
Less accumulated depreciation for:				
Buildings	(4,083)	(500)	-	(4,583)
Equipment	(40,912)	(40,543)	-	(81,455)
Vehicles	(138,276)	(20,272)	-	(158,548)
Subtotal	<u>(183,271)</u>	<u>(61,315)</u>	<u>-</u>	<u>(244,586)</u>
Governmental activities capital assets, net	<u>\$ 445,890</u>	<u>\$ (49,115)</u>	<u>\$ -</u>	<u>\$ 396,775</u>

**NOTE 5 - PAYABLES:**

Payables as of year end for the Fire Board are as follows:

<u>Fund</u>	<u>Accounts</u>	<u>Payroll</u>	<u>Total</u>
General	<u>\$ 7,849</u>	<u>\$ 13,087</u>	<u>\$ 20,936</u>

**NOTE 6 - NOTE PAYABLE:**

Long-term liabilities at June 30, 2006, are comprised of the following individual issue:

Governmental activities:

Note payable:

\$192,450 2003 Commercial Loan with Chemical Bank, secured by GMC pumper tanker (P.A. 205,99), due in annual installments of \$19,425 through August 2012, plus interest at 3.39%.

\$ 135,004

**Fennville Area Fire Board**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**NOTE 6 - LONG-TERM LIABILITIES (Continued):**

Long-term liability activity for the year ended June 30, 2006, was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Governmental activities:					
Note payable	<u>\$ 154,249</u>	<u>\$ -</u>	<u>\$ 19,245</u>	<u>\$ 135,004</u>	<u>\$ 19,245</u>

Debt service requirements at June 30, 2006, were as follows:

<u>Year ended June 30:</u>	<u>Governmental activities</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 19,245	\$ 4,250
2008	19,245	3,598
2009	19,245	2,946
2010	19,245	2,293
2011	19,245	1,641
2012 - 2013	<u>38,779</u>	<u>1,334</u>
	<u>\$ 135,004</u>	<u>\$ 16,062</u>

**NOTE 7 - RISK MANAGEMENT:**

The Fire Board is exposed to various risks of loss to general liability, property and casualty, and workers' compensation, with such risks being managed through the purchase of commercial insurance.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**Fennville Area Fire Board****BUDGETARY COMPARISON SCHEDULE - Operating Fund**

Year ended June 30, 2006

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
<b>REVENUES</b>				
Intergovernmental:				
City of Fennville	\$ 43,313	\$ 43,313	\$ 43,313	\$ -
Township of Manlius	43,313	43,313	43,313	-
Township of Clyde	43,313	43,313	43,313	-
Interest	-	-	3	3
Other	-	-	1,876	1,876
	<u>129,939</u>	<u>129,939</u>	<u>131,818</u>	<u>1,879</u>
Total revenues				
<b>EXPENDITURES</b>				
Public safety:				
Personnel costs	32,800	32,800	36,830	(4,030)
Office supplies	2,250	2,250	795	1,455
Operating costs - incidents	4,860	4,860	5,859	(999)
Training and preparation	5,000	5,000	3,344	1,656
Contracted services	2,550	2,550	495	2,055
Insurance	21,000	21,000	17,911	3,089
Utilities	8,880	8,880	7,437	1,443
Repairs and maintenance	16,400	16,400	22,229	(5,829)
	<u>93,740</u>	<u>93,740</u>	<u>94,900</u>	<u>(1,160)</u>
Total public safety				
Capital outlay	<u>10,700</u>	<u>10,700</u>	<u>13,338</u>	<u>(2,638)</u>
Debt service:				
Principal	23,000	23,000	21,874	1,126
Interest	2,500	2,500	2,332	168
	<u>25,500</u>	<u>25,500</u>	<u>24,206</u>	<u>1,294</u>
Total debt service				
Total expenditures	<u>129,940</u>	<u>129,940</u>	<u>132,444</u>	<u>(2,504)</u>
<b>NET CHANGE IN FUND BALANCES</b>	(1)	(1)	(626)	(625)
<b>FUND BALANCES - BEGINNING</b>	<u>14,513</u>	<u>14,513</u>	<u>14,513</u>	<u>-</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 14,512</u>	<u>\$ 14,512</u>	<u>\$ 13,887</u>	<u>\$ (625)</u>

**Members of the Board  
Fennville Area Fire Board  
Fennville, Michigan**

In planning and performing our audit of the financial statements of the Fennville Area Fire Board, Fennville, Michigan for the year ended June 30, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. Our assessment of the internal control was limited to obtaining an understanding of the internal control sufficient to plan our audit and did not include tests of controls. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the organization's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

Effective policies and procedures are not in place to enable the Board to adequately perform its responsibilities related to financial accounting and reporting. We have observed several indications of this condition including:

- Lack of timely and effective monitoring and reporting procedures
- Incorrect reporting of payroll information
- Lack of clarity between Board vs. firefighter association activities

The Board's system of internal control is dependent upon its policies and procedures. Inadequate policies and procedures result in an impaired control environment, and negatively affect communication and monitoring. Monitoring procedures are particularly necessary to mitigate the fact that the small number of personnel limits the practicable segregation of the Board's accounting procedures.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that the above reportable condition is a material weakness.

This report is intended solely for the information and use of the Board and the State of Michigan Department of Treasury.

*Siegfried Crandall P.C.*

October 19, 2006